

CITY OF BATTLE CREEK

INDEPENDENT ACCOUNTANT'S
REPORT ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS

FOR THE PERIOD
DECEMBER 1, 2015 THROUGH MAY 31, 2016

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City of Battle Creek

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lloyd Holmes	Mayor	January, 2018
Dan Hedberg	Council Member	January 2020
Jill Wingert	Council Member	January 2020
Judy Schau	Council Member	January 2018
Todd Riessen	Council Member	January 2018
Myra Meek	Council Member	January 2018
Diane Lansink	City Clerk/Treasurer	January, 2017
Peter Goldsmith	Attorney	January, 2017

City of Battle Creek

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

Independent Accountant's Report on the Status of Periodic
Examination Findings and Recommendations

October 13, 2016

Lonnie G. Muxfeldt
Certified Public
Accountant

Harlan Office:

2309 B Chatburn Ave.
P.O. Box 551
Harlan, IA 51537-0551

Ph. (712) 755-3366
Fax (712) 755-3343

Avoca Office:

305 W. High Street
P.O. Box 609
Avoca, IA 51521-0609

Ph. (712) 343-2379
Fax (712) 343-5012

www.muxfeldt-cpa.com
firm@muxfeldt-cpa.com

Licensed In:

Iowa
Missouri

To the Honorable Mayor
and Members of the City Council:

Muxfeldt Associates, CPA, P.C. issued a Periodic Examination Report dated November 25, 2014 on the City of Battle Creek, Iowa covering the period August 1, 2013 through July 31, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report date November 25, 2014 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Battle Creek and other parties to whom the City of Battle Creek may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Battle Creek during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Muxfeldt Associates, CPA, P.C.

**Report on the Status of Periodic Examination
Findings and Recommendations**

City of Battle Creek

Report on the Status of Periodic Examination Findings and Recommendations

Findings Reported in the Periodic Examination Report dated November 25, 2014:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparation and distribution.
- (5) Financial reporting – preparing and reconciling.
- (6) Journal entries – preparing and journalizing.
- (7) Accounting System – performing all general accounting functions including journal entries and having custody of assets.
- (8) Computer system – performing all general accounting functions and controlling all data input and output.
- (9) Investing – recordkeeping, investing, custody of investments and reconciling earnings,
- (10) Debt – recordkeeping, compliance and debt payments.

For the City's Ambulance Service, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

Recommendation – I realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations and journal entries should be evidenced by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

City of Battle Creek

Report on the Status of Periodic Examination Findings and Recommendations

- (B) City Council Minutes – Chapter 372.13 (6) of the Code of Iowa requires that the minutes of all City Council proceedings be published within fifteen days of the meeting and include a summary of total receipts received by each fund, a summary of total disbursements from each fund, a summary of ordinances or amendments adopted and annual individual gross salaries are published as required. Although the minutes were published within fifteen days, none of the minutes tested included total disbursements summaries by fund. There were three instances found during testing where resolutions were passed with one or more Council members absent.

Recommendation – The City should comply with the Code of Iowa and publish minutes that include a summary of disbursements by fund. The city should comply with Chapter 380.4 of the Code of Iowa and refrain from voting on ordinances, amendments and resolutions unless all seats of the council are present at such meeting. The City should consult legal counsel as to the validity of resolutions and ordinances passed without proper representation of all Council seats.

Current Status – Corrected.

- (C) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in public safety, public works, culture and recreation, community and economic development, general government, debt service, business type and transfers. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Current Status – Corrected.

- (D) Disbursement – It was noted during testing that disbursements were issued prior to City Council approval. Also, when multiple invoices were paid on one disbursement, the top invoice was defaced but corresponding invoices included in the disbursement were not defaced or marked “paid”.

Recommendation – All disbursements should be approved for payment by the City Council before issuance. Council Resolution 02-03-08 give the City Clerk authorization to pay claims before Council approval if penalties or interest will be charged by holding invoices until the next council meeting. Issuance of all disbursements before council approval is not allowed. Disbursements should be approved by the City Council before issuance. Also, all disbursements with multiple invoices should have each invoice defaced or marked “paid” to avoid possible payment of the invoice twice.

Current Status – Partially Corrected. Multiple invoices that were paid were not all defaced as paid.

City of Battle Creek

Report on the Status of Periodic Examination Findings and Recommendations

- (E) Transfers – An Emergency Fund transfer was between funds was not approved by the City Council.

Recommendation – The City Council should approve all inter fund transfers prior to the actual transfer and document the approval and amounts as part of the Council minutes.

Current Status –Corrected.

- (F) Payroll – Although time sheets are maintained for employees, there is no indication that the time sheets have been reviewed or approved by appropriate supervisory personnel prior to payment. In addition, annual salary increases were approved by the City Council but were based upon a percentage increase and the actual amount of approved wages were not documented.

Recommendation – Appropriate supervisory personnel should review and approve all employee hours before payroll checks are issued. In addition, annual salary increases were approved by the City Council but were based upon a percentage increase and the actual amount of approved wages were not documented.

Current Status – Partially Corrected. Appropriate supervisory personnel are not approving hours worked for part time employees.

- (G) Pre-numbered Receipts – Pre-numbered receipts were not issued for all collections.

Recommendation -- The City should establish a protocol for using pre-numbered receipts for collections of City funds.

Current Status –Corrected.

- (H) Financial Reporting – The total fund balance on the June 30, 2014 Annual Financial Report did not balance with the City's balance sheet by \$534, which was interest earned on the Library certificate of deposits.

Recommendation – The City should implement procedures to ensure financial transactions are properly recorded a timely basis.

Current Status –Corrected.

City of Battle Creek

Report on the Status of Periodic Examination Findings and Recommendations

- (I) Bank Reconciliations – The cash and investments balances in the City’s general ledger were not reconciled to the bank and investment accounts balances monthly. Although the cash balances in the city’s general ledger were reconciled monthly, there was no independent review of the bank reconciliations.

Recommendation – The City should establish procedures to ensure bank and investments account balances are reconciled to the general ledger monthly and an independent person should review the reconciliations and document the review by signing or initialing the reconciliation.

Current Status – Partially Corrected. No individual independent review is being performed by an independent person. In addition, see finding (Q).

- (J) Journal Entries – Journal entries are not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve all journal entries. approval should be documented by signing or initialing and dating the journal entries.

Current Status – Not corrected. The recommendation is repeated.

- (K) Official Depositories – A resolution naming official depositories has not been adopted by the City Council as required by chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

- (L) Urban Renewal Annual Report – The AURR report was not approved by the City Council before submission of the report.

Recommendation – The City council should approve the AURR report prior to submitting the report.

Current Status –Corrected.

City of Battle Creek

Report on the Status of Periodic Examination Findings and Recommendations

- (M) Separately Maintained Records – The City Ambulance service maintains separate accounting records. While the transactions are included in the City's accounting records, the disbursements are not approved by the City Council before issuance.

Recommendation – Chapter 384.20 of the Code of Iowa states in part "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose." For better accountability, financial and budgetary control, the financial activity of all City accounts should not only be included in the city's accounting records, but should be approved by the City Council before issuance of disbursements of the Ambulance Service.

Current Status – Not corrected. The recommendation is repeated.

- (N) Utility Billing – Utility billings, collections and delinquent accounts were not reconciled monthly and a delinquent account listing was not presented to the Council on a monthly basis.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. Also, a listing of delinquent accounts should be presented to the Council monthly for their review.

Current Status – Not corrected. The recommendation is repeated.

- (O) Computer System – The following weaknesses in the City's computer system were noted:

The City does not have written policies and procedures for:

1. Password privacy and confidentiality.
2. Requiring password changes periodically.
3. Allowing only authorized personnel to request password resetting.
4. Not allowing another employee to request a reset of password for another employee and then having access to this password.

Recommendation – The City Should develop written policies and procedures addressing the above items to improve the City's internal Control over the computer system.

Current Status – Not corrected. The recommendation is repeated.

City of Battle Creek

Report on the Status of Periodic Examination Findings and Recommendations

- (P) Business Transactions -- Business transactions between the City and city officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Craig Young, City Employee Owner of Young's Auto Repair	Vehicle Repairs	\$ 30

In accordance with chapter 362.5(k) of the Code of Iowa, the above transaction does not appear to represent a conflict of interest since the total transaction was not more than the \$2,500 limit.

Current Status – Corrected.

Additional Findings as a Result of Follow-up Procedures:

- (Q) Bank Reconciliation – The City did prepare monthly outstanding check listings in the computer system, but did not attach a copy to the bank reconciliation to support the bank reconciliation.

Recommendation – The City should attach a copy of the prepared outstanding check listing to the monthly bank reconciliation to facilitate and support the reconciliation report.

- (R) Unclaimed Property – Chapter 556.11 of the code of Iowa requires each City to report and remit outstanding obligations, including checks held for more than two years, to the Office of Treasurer of State annually. The City has not remitted unclaimed property to the Office of Treasurer of State annually.

Recommendation – The City should implement procedures to ensure outstanding checks are reviewed annually and amounts over two years old are remitted to the Office of Treasury of State annually, as required.

NEWS RELEASE

Muxfeldt Associates, CPA, P.C. today released a Report on the Status of Findings and Recommendations on the City of Battle Creek's Periodic Examination Report dated November 25, 2014. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period August 1, 2013 through July 31, 2014.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight. All sixteen findings reported in the Periodic Examination Report dated November 25, 2014 are repeated in this report. While the City corrected seven of the sixteen findings, three of the findings are reported as "partially corrected" and six were reported as "not corrected". Two additional findings identified during the follow-up procedures are also included in this report.

A copy of the Report on the Status of Findings and Recommendations from the City of Battle Creek's Periodic Examination Report dated November 25, 2014 is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/index>.